

**SANTA BARBARA
METROPOLITAN TRANSIT DISTRICT
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2004 and 2003**

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

June 30, 2004 and 2003

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Metropolitan Transit District
Santa Barbara, California

We have audited the accompanying financial statements as listed in the preceding table of contents of Santa Barbara Metropolitan Transit District as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to satisfy ourselves regarding bus parts inventory quantities and costs as of June 30, 2002. Bus parts inventory as of June 30, 2002 entered into the determination of change in net assets and cash flows for the year ended June 30, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary regarding bus parts inventory as described in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Santa Barbara Metropolitan Transit District as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the District adopted the provisions of Governmental Accounting Standards Board Statement No.33, *Accounting and Financial Reporting for Nonexchange Transactions*, No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Omnibus Statement No. 37, *Basic financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Omnibus, Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*; as of July 1, 2002, resulting in a change to the Agency's format and content of the basic financial statements.

The Management's Discussion and Analysis on pages I through IV are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2004, on our consideration of the Santa Barbara Metropolitan Transit District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McGowan Guntermann

October 22, 2004

Management Discussion and Analysis for Fiscal Year 2004

This report provides a narrative and analytical overview of the Santa Barbara Metropolitan Transit Districts (District) financial activities. The District's basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The District is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These are followed by notes to the financial statements.

Financial Reports

The statement of net assets presents information on the assets and liabilities, with the difference between the two reported as net assets.

The statement of revenue, expenses and changes in net assets reports the operating revenues and expenses and nonoperating revenues and expenses of the District for the year combined with any capital grants and net of depreciation expense to determine the net change in assets for the fiscal year. That change combined with the previous years-end net asset total reconciles to the net asset total at the end of this fiscal year.

The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalent balance at the end of the current fiscal year.

The schedules of expenses reports the amount of costs incurred on operating activities throughout the fiscal year.

Financial Summary

The District completed FY 03-04 with a decrease in deferred credits of \$907,093 including an advance of \$307,698 from a federal capital grant, and an application of TDA funds of \$1,214,791. The District anticipated a decrease of deferred credits of \$1,485,959. The projected decrease consisted of expenditures for the acquisition of buses, computer software and bus rehabilitation that were not offset by federal grants or current year local subsidies.

The difference in budgeted deferred credits used and actual deferred credits used referenced above related to a delay in computer software projects. The two projects were delayed and as a result the projects will be carried forward to FY 04-05. A mid-year budget revision will take place to acknowledge the shift.

In FY 03-04 the District's Transportation Development Act (TDA) funding increased by 2.5%. These funds constitute a significant percentage of the District's operating and capital revenues.

TDA increased by (\$159,369) 2.5%, while federal Operating Assistance remained flat with prior year figures. As the table illustrates, TDA receipts are still well below FY 01-02 levels. This fact coupled with the lack of even a cost of living increase to the federal Operating Assistance subsidy has placed a great deal of pressure on MTD's operating budget. Typically,

TDA SB325 Local Transportation Funds			
	FY04	FY03	FY02
Local Transportation Fund (SB 325)	6,062,910	5,932,888	6,214,607
State Transit Assistance Fund (SB 620)	436,119	406,772	678,789
	6,499,029	6,339,660	6,893,396
Subsidy Change:	159,369	(553,736)	
% Change:	2.5%	-8.0%	

sharp decreases in transit subsidies result in adjustments to either the level of service provided or to the fare structure. The District opted to modify its fare structure to increase the cash fare while providing new discounted passes. The new fare structure was implemented in October of 2003. Actual passenger fares for FY 03-04 equaled \$6,174,973 versus \$5,547,712 in the prior fiscal year that resulted in an increase of \$627,261 in passenger fares.

The District is notified of the estimated TDA funding levels early in the calendar year, which allows the District to include the appropriate figure in its annual budget. However, this does not always allow sufficient time for the District to adjust levels of service.

Assets & Liabilities

The District uses proceeds from local, state and federal grants to acquire its assets. Net assets serve as a useful indicator of an agency's financial position. The District's assets exceeded liabilities by \$29,436,754 as of June 30, 2003. The table below is a summary of the District's net assets:

Statement of Net Assets June 30, 2004

Assets:	2004	2003
Current Assets	\$6,756,556	\$7,532,076
Non-Current Assets	31,893,767	25,978,278
Total Assets	\$38,650,323	\$33,510,354
Liabilities:		
Current Liabilities	\$3,207,510	\$2,586,494
Non-Current Liabilities	6,006,059	4,945,580
	\$9,213,569	\$7,532,074
Net Assets Invested in Capital Assets:	\$29,436,754	\$25,978,280

As the table illustrates, net assets increased by \$3,458,474 during FY 03-04. The increase is a result of new capital investments exceeding depreciation expense. Capital assets acquired increased by \$8,431,012 which reflects the District's investment in buildings, buses, other equipment and work in progress.

Revenue, Expense and Performance Indicators

The District's operations are financed primarily by three significant sources of funding. Two of which, TDA and Federal Operating Assistance, have already been discussed. The third source, passenger fares, increased by 11.3% during FY 03-04 which coincides with an increase in the fare structure. Expenses exceeded the budget by 3.5% which reflects rising fuel costs (\$140,600 over budget), workers compensation costs (\$286,000 over budget) and future retiree sick pay

benefits (\$127,000 over budget). The District's cost per revenue hour increased by 10.4% a reflection of the aforementioned items coupled with a labor agreement that was weighted heavily in the last year and nearly \$400,000 in one-time expenditures related to mandated fees and labor settlement costs.

Santa Barbara Metropolitan Transit District
Revenue, Expense and Performance Report
Period Ending June 30, 2004

Category	Actual FY 03-04	Prior Year FY 02-03	% Change	Budget FY 03-04	% Change
Revenues:					
Passenger Fares	\$6,174,973	\$5,547,712	11.3%	\$5,923,066	4.3%
Property Tax	603,344	560,761	7.6%	596,028	1.2%
Local Operating Assistance	344,642	366,344	-5.9%	325,000	6.0%
Non-Operating Assistance	303,074	332,301	-8.8%	293,200	3.4%
Sub Total :	\$7,426,033	\$6,807,118	9.1%	\$7,137,294	4.0%
Major Subsidies:					
TDA ⁽¹⁾	\$5,434,952	\$4,734,175	14.8%	\$5,199,998	4.5%
Federal Operating Assistance	2,756,159	2,756,468	0.0%	2,756,468	0.0%
Sub Total:	\$8,191,111	\$7,490,643	9.4%	\$7,956,466	2.9%
 Total Operating Revenue	 \$15,586,142	 \$14,297,761	 9.0%	 \$15,093,760	 3.3%
Expenses:					
Route Operations	\$8,504,724	\$7,861,100	8.2%	\$8,117,387	4.8%
Vehicle Maintenance	3,616,924	3,189,648	13.4%	3,426,723	5.6%
Passenger Accomodations	1,274,404	1,268,340	0.5%	1,336,346	-4.6%
General Overhead	2,190,090	1,978,673	10.7%	2,213,304	-1.0%
Total Operating Expense (excluding depreciation and interest)	\$15,586,142	\$14,297,761	9.0%	\$15,093,760	3.3%
Performance Indicators:					
Total Passengers	7,004,009	7,005,686	0.0%		
Revenue Hours	178,003	180,244	-1.2%		
Revenue Miles	2,351,305	2,419,260	-2.8%		
 Farebox Ratio ⁽²⁾	 39.6%	 38.8%	 2.1%		
Cost/Passenger	\$2.23	\$2.04	9.0%		
Cost/Hour	\$87.56	\$79.32	10.4%		
Cost/Mile	\$6.63	\$5.91	12.2%		

(1) The amount of TDA subsidy applied to operations increased by \$700 thousand. This figure fluctuates annually based on the amount required to balance the District's revenues with its expenses. It should be noted that the District did not receive an additional \$700 thousand in subsidy but that the District was required to increase the amount allocated to operations.

(2) Farebox Ratio is a standard transit performance indicator that is calculated by dividing operating expenses, less depreciation and interest, by passenger fares.

Conclusion

Despite rising fuel prices, significant one-time expenditures and continued pressure from workers compensation related costs the District's deferred credits decreased less than expected. However, after adjusting for capital projects that were delayed to the following year it is clear that deferred credits exceeded the anticipated decrease by \$271,000. FY 03-04 also included the leasing of eleven (11) clean diesel buses over a five-year period. The District will make quarterly payments equaling \$572,000 annually including interest during the life of the lease.

In FY 03-04 the District offset some cost pressures by instituting a temporary staff hiring freeze. A number of staff positions were not filled as individuals left the District's employment. As a whole, labor related costs account for nearly 80% of the District's total operating budget. This is a significant ratio to track as the District's collective bargaining agreement with the Teamsters expired at the end of FY 03-04.

Below is a list of other significant issues that will impact the District's finances in the future:

- Sale or lease of Calle Real property – The 18.7 acres of unimproved real property owned by the District and located on Calle Real in Santa Barbara will eventually result in an influx of funds, however, the availability and amount is still unknown.
- Electric and diesel bus acquisitions – The Santa Barbara County Association of Governments (SBCAG) recently approved the District's grant amendment for the South Coast Transit Priorities. The only immediate financial impact is the inclusion of federal funds to pay off the capital lease for aforementioned eleven (11) clean diesel buses.
- City of Santa Barbara Agreements – The District will begin discussions with the City regarding long-term shuttle acquisitions and an extension of local operating assistance for the Downtown/Waterfront, Crosstown, Wharf Woody and Commuter Lot shuttle services.
- Collective Bargaining Agreement - The District's agreement with the Teamsters expired at the end of FY 03-04. Discussions with the Teamsters are in progress.
- TDA Subsidy – Population is a significant factor in determining the distribution of TDA funds within Santa Barbara County. If the population of southern Santa Barbara County continues to decrease the percentage of TDA funds available to the District will be negatively impacted.
- 5307 Federal Operating Assistance – SBCAG has informed the District, as well as other relevant transit operators in the County, that the Federal Transit Administration (FTA) is requiring them to address the method used to allocate federal operating assistance. This may have a significant impact on the District's operating revenues as these funds constitute approximately 17.6% of its operating revenues.
- Facility Consolidation – As a result of facility consolidation, the District may opt to either sell or lease its Overpass property. However, the District will incur costs relating to soil remediation located on that property in the near future.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

BALANCE SHEETS June 30, 2004 and 2003

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,846,211	\$ 2,760,648
Grants receivable	2,767,411	3,328,611
Other receivable	154,405	182,932
Materials and supplies inventories	845,244	1,098,955
Other current assets	<u>143,285</u>	<u>160,930</u>
Total Current Assets	<u>6,756,556</u>	<u>7,532,076</u>
CAPITAL ASSETS, AT COST		
Tangible transit operating property	51,547,776	44,924,558
Less: Accumulated depreciation	<u>(19,654,009)</u>	<u>(18,946,280)</u>
Capital Assets, net	<u>31,893,767</u>	<u>25,978,278</u>
TOTAL ASSETS	<u>\$ 38,650,323</u>	<u>\$ 33,510,354</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Trade payables	\$ 319,215	\$ 398,423
Accrued payroll	1,068,742	896,456
Accrued expenses	1,330,118	1,291,615
Current portion - capital lease payable	<u>489,435</u>	<u>-</u>
Total Current Liabilities	3,207,510	2,586,494
LONG-TERM LIABILITIES		
Federal, state and local deferred credits	4,038,482	4,945,580
Capital lease payable - net of current portion	<u>1,967,577</u>	<u>-</u>
Total Long-Term Liabilities	<u>6,006,059</u>	<u>4,945,580</u>
Total Liabilities	9,213,569	7,532,074
NET ASSETS - invested in capital assets, net of related debt	<u>29,436,754</u>	<u>25,978,280</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 38,650,323</u>	<u>\$ 33,510,354</u>

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUE, NOT INCLUDING LOCAL AND FEDERAL ASSISTANCE		
Passenger fares	\$ 6,174,973	\$ 5,547,712
OPERATING EXPENSES		
Vehicle operations	8,504,724	7,861,100
Vehicle maintenance	3,616,924	3,189,648
Passenger facilities	1,274,404	1,268,340
General overhead	<u>2,190,090</u>	<u>1,978,673</u>
Total before Interest and Depreciation	15,586,142	14,297,761
Interest	31,002	-
Depreciation	<u>2,338,068</u>	<u>2,127,172</u>
Total Expenses (Schedule)	<u>17,955,212</u>	<u>16,424,933</u>
OPERATING LOSS	<u>(11,780,239)</u>	<u>(10,877,221)</u>
NON-OPERATING REVENUE (EXPENSES)		
Non-transportation revenue, including interest, advertising, rental and miscellaneous	303,074	332,301
Taxes levied by Santa Barbara County for Transit District 603,344	560,761	
Transportation Development Act funding and allocations	5,434,952	4,734,175
Federal grants and reimbursements	2,756,159	2,756,468
Miscellaneous grants	<u>344,642</u>	<u>366,344</u>
Total Non-Operating Revenue	<u>9,442,171</u>	<u>8,750,049</u>
LOSS BEFORE TRANSFERS	(2,338,068)	(2,127,172)
Add: Transfer of depreciation expense to net assets invested in capital assets	<u>2,338,068</u>	<u>2,127,172</u>
NET INCOME	-	-
Increase (decrease) in capital grants - Note 7	<u>3,458,474</u>	<u>(1,083,349)</u>
INCREASE (DECREASE) IN NET ASSETS	3,458,474	(1,083,349)
BEGINNING OF YEAR NET ASSETS	<u>25,978,280</u>	<u>27,061,629</u>
END OF YEAR NET ASSETS	<u>\$ 29,436,754</u>	<u>\$ 25,978,280</u>

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATIONS		
Receipts from transit customers	\$ 6,280,984	\$ 5,388,496
Receipts from other operations	225,589	325,116
Interest paid	(23,433)	-
Payments to suppliers and vendors	(3,838,588)	(3,147,910)
Payments to employees	<u>(11,352,188)</u>	<u>(10,962,887)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(8,707,636)</u>	<u>(8,397,185)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	\$ 7,882,156	\$ 5,954,259
Taxes levied by Santa Barbara County	<u>603,344</u>	<u>560,761</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>8,485,500</u>	<u>6,515,020</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(5,856,029)	(1,795,799)
Land remediation reimbursement	-	743,275
Federal, state and local capital grants received	6,281,700	898,992
Capital lease principal payments	<u>(117,972)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>307,699</u>	<u>(153,532)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	85,563	(2,035,697)
CASH AND EQUIVALENTS		
Beginning of year	<u>2,760,648</u>	<u>4,796,345</u>
End of year	<u>\$ 2,846,211</u>	<u>\$ 2,760,648</u>
Reconciliation of operating income to net cash provided by operating activities		
Net income	\$ -	\$ -
Charges to cost of service not requiring current expenditure of cash		
Changes in:		
Accounts receivable - excluding grants	28,527	(165,636)
Inventory	253,711	27,901
Prepaid expenses	17,646	(60,451)
Accounts payable	(79,212)	29,396
Accrued liabilities	210,789	189,353
Items reclassified above:		
State and local operating grants	(5,434,952)	(4,734,175)
Federal operating grants	(2,756,159)	(2,756,468)
Miscellaneous grants	(344,642)	(366,344)
Taxes levied by Santa Barbara County	<u>(603,344)</u>	<u>(560,761)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (8,707,636)</u>	<u>\$ (8,397,185)</u>

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF EXPENSES For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
LABOR		
Operators' wages	\$ 4,134,833	\$ 3,946,430
Other salaries and wages	<u>3,133,846</u>	<u>2,844,156</u>
Total Labor	<u>7,268,679</u>	<u>6,790,586</u>
FRINGE BENEFITS		
Payroll taxes	637,651	604,988
Retirement plans	892,480	814,591
Health and welfare	945,838	918,876
Workers compensation	1,137,417	1,045,493
Sick pay	311,806	141,184
Holiday pay	271,348	262,491
Vacation pay	526,014	503,485
Other paid absences	26,820	17,693
Uniforms and tool allowances	<u>34,359</u>	<u>36,024</u>
Total Fringe Benefits	<u>4,783,733</u>	<u>4,344,825</u>
SERVICES		
Professional and technical including directors' fees	249,905	299,460
Outside services	68,319	69,180
Contract maintenance services	181,304	178,496
Promotion and printing	<u>125,450</u>	<u>124,349</u>
Total Services	<u>624,978</u>	<u>671,485</u>
MATERIALS AND SUPPLIES		
Fuel and lubricants	803,794	638,855
Tires and tubes	110,381	103,574
Bus parts	794,781	695,802
Other materials and supplies	140,025	176,515
Electric bus power	<u>68,899</u>	<u>63,290</u>
Total Material and Supplies	<u>1,917,880</u>	<u>1,678,036</u>
Subtotal - Expenses Carried Forward	<u>\$14,595,270</u>	<u>\$13,484,932</u>

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULES OF EXPENSES (CONTINUED)

For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Subtotal - Expenses Brought Forward	<u>\$14,595,270</u>	<u>\$13,484,932</u>
UTILITIES AND TELEPHONE	<u>199,378</u>	<u>219,035</u>
CASUALTY AND LIABILITY COSTS	<u>181,329</u>	<u>87,901</u>
PURCHASED TRANSPORTATION	<u>332,173</u>	<u>219,300</u>
MISCELLANEOUS EXPENSES		
Dues and subscriptions	25,824	25,431
Travel, meetings and training	11,626	33,075
Purchased media	17,493	42,715
Other miscellaneous expenses	<u>223,049</u>	<u>185,372</u>
Total Miscellaneous Expenses	<u>277,992</u>	<u>286,593</u>
Total Expenses Before Interest and Depreciation	15,586,142	14,297,761
INTEREST	31,002	-
DEPRECIATION	<u>2,338,068</u>	<u>2,127,172</u>
TOTAL EXPENSES	<u>\$17,955,212</u>	<u>\$16,424,933</u>

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 - REPORTING ENTITY

The Santa Barbara Metropolitan Transit District, a government entity, was formed under the terms of the Santa Barbara Metropolitan Transit District Act for 1965, Part 9, of the California Public Utilities Code amended in 1967. The District provides local public transportation services to the metropolitan Santa Barbara area which encompasses the outlying communities of Goleta, Montecito and Carpinteria.

In accordance with the requirements of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*, the financial statements must present the District (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District, the reporting entity. The District accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services. All other revenues and expenses are reported as nonoperating revenues and expenses. The accounting records of the District are subject to the uniform accounting system for transit districts as set forth by the Federal Transit Authority (FTA) and the State Controller.

The financial statements of the District are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The District receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. In fiscal 2003, the District adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires capital grants to be reported as revenue rather than contributed capital. The amount recorded as capital grant revenue in fiscal 2003 and 2002 were \$5,974,000 and \$1,052,526, respectively.

For purposes of the statement of cash flows, the District considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets are stated at cost, less accumulated depreciation computed on the straight-line method over the following lives:

Buildings	20 to 40 years
Buses and equipment	3 to 12 years
Office and shop equipment	5 to 10 years
Automotive equipment	3 to 5 years

The inventories are composed of bus parts, fuels and lubricants and are valued at cost on a weighted-average basis.

The District accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2004 and 2003 was approximately \$517,395 and \$507,438, respectively.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The District adopted the provisions of the Governmental Accounting Standards Board Statement, No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (Statement 34) in 2003. Statement 34 establishes financial reporting standards for all state and local government entities. Statement 34, as it applies to the District, primarily relates to presentation and disclosure requirements and had no impact on net assets as of June 30, 2003. The impact of changes on the report include: the presentation of balance sheet in a “net assets” format, the inclusion of Management’s Discussion and Analysis, and the presentation of cash flows on the direct rather than the indirect method.

The District adopted the provisions of the Governmental Accounting Standards Board Statements No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus, and No. 38, Certain Financial Statement Note Disclosures (Statement 38) in 2003. The implementation of Statements No. 37 and 38 had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

Certain reclassifications have been made to the prior year's financial statements to conform with the 2004 presentation.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3 - COMPOSITION OF CASH DEPOSITS

Classification of Deposits and Investments by Credit Risks

GASB Statement No. 3 requires that deposits and investments be classified into three categories of credit risk. These categories are as follows:

- Category 1 - Deposits which are insured or collateralized with securities held by the District or its agent in the District's (or Agency's) name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's (or Agency's) name.
- Category 3 - Deposits which are uncollateralized or collateralized with securities held by the pledging financial institutions or its trust department or agent but not in the District's (or Agency's) name.

At June 30, 2004, the composition of cash deposits consisted of petty cash and change funds, money market accounts as follows:

	<u>Carry Value</u>	<u>Market Value</u>	<u>Risk Category</u>		
			<u>1</u>	<u>2</u>	<u>3</u>
Cash Deposits					
Money market accounts	\$ 2,868,884	\$ 2,868,884	\$ 100,000	-	\$ 2,768,884
Petty cash and change funds	<u>18,352</u>	<u>18,352</u>			
Total Cash Deposits (Bank					
Balances) and on hand	2,887,236	2,887,236			
Outstanding checks	(62,277)	(62,277)			
Deposits in transit	<u>21,252</u>	<u>21,252</u>			
Total Cash Balance (Book					
Balances) and Cash on Hand	<u>\$ 2,846,211</u>	<u>\$ 2,846,211</u>			

Total cash deposits Category 3 are 110% collateralized with securities held by the bank, or the bank's agent, in the bank's name.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3 - COMPOSITION OF CASH DEPOSITS (continued)

At June 30, 2003 the composition of cash deposits consisted of petty cash and change funds, money market accounts as follows:

	<u>Carry Value</u>	<u>Market Value</u>	Risk Category		
			<u>1</u>	<u>2</u>	<u>3</u>
Cash Deposits					
Certificate of deposit	\$ 500,330	\$ 500,330	\$ -	-	\$ 500,330
Money market accounts	2,588,154	2,588,154	100,000	-	2,488,154
Petty cash and change funds	<u>13,500</u>	<u>13,500</u>			
Total Cash Deposits (Bank Balances)	3,101,984	3,101,984			
Outstanding checks	(371,112)	(371,112)			
Deposits in transit	<u>29,776</u>	<u>29,776</u>			
Total Cash Balance (Book Balances)	<u>\$ 2,760,648</u>	<u>\$ 2,760,648</u>			

Total cash deposits Category 3 are 110% collateralized with securities held by the bank, or the bank's agent, in the bank's name.

Note 4 - DEFERRED CREDITS - STATE AND LOCAL

Deferred credits represent excess Transportation Development Act revenue received. Pursuant to Section 6634 of the California Administrative Code - Transportation Development Act, a transit claimant is precluded from receiving monies from the Local Transportation Fund and State Transit Assistance Fund in an amount which exceed that claimant's capital and operating costs, less the required fares, local support, and the amount received during the year from a city or county to which the operator provides service beyond its boundaries.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5 - CAPITAL ASSETS

Changes in transit operating property during the years ended June 30, 2004 and 2003, are as follows:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Reclassi- fications</u>	<u>Disposals</u>	<u>June 30, 2004</u>
Land*	\$ 5,696,658	\$ -	\$ (74,800)	\$ -	\$ 5,621,858
Buildings	10,613,212	863,354	948,041	(23,479)	12,401,129
Buses	24,428,867	7,372,344	(260)	(1,718,081)	30,082,870
Other equipment	2,761,862	59,761	260	(66,236)	2,755,648
Work in process*	1,287,470	207,815	(1,120,703)	-	299,782
Research and development	<u>136,489</u>	<u>2,538</u>	<u>247,462</u>	<u>-</u>	<u>386,489</u>
	<u>\$ 44,924,558</u>	<u>\$ 8,505,812</u>	<u>\$ -</u>	<u>\$ (1,807,796)</u>	<u>\$ 51,547,776</u>

	<u>July 1, 2002</u>	<u>Additions</u>	<u>Reclassi- fications</u>	<u>Reimburse- ments and Disposals</u>	<u>June 30, 2003</u>
Land*	\$ 6,439,933	\$ -	\$ -	\$ (743,275)	\$ 5,696,658
Buildings	9,922,524	37,905	661,732	(8,948)	10,613,212
Buses	24,209,490	220,859	-	(1,482)	24,428,867
Other equipment	2,715,065	348,702	(6,126)	(295,779)	2,761,862
Work in process*	754,743	1,188,333	(655,606)	-	1,287,470
Research and development	<u>136,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,489</u>
	<u>\$ 44,178,244</u>	<u>\$ 1,795,799</u>	<u>\$ -</u>	<u>\$ (1,049,484)</u>	<u>\$ 44,924,558</u>

* Capital assets not being depreciated

Note 6 - PROPERTY TAX CALENDAR

Taxes, including homeowners' property tax relief, are remitted from the County Tax Collector. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1	
Levy Date	July 1 to June 30	
Due Date	November 1	(1st installment)
	February 1	(2nd installment)
Delinquent Date	December 10	(1st installment)
	April 10	(2nd installment)

Under California Law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the District based on complex formulas prescribed by the state statutes.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7 - NET ASSETS ACCOUNT

An analysis of the net assets account is as follows:

	<u>2004</u>	<u>2003</u>
Local Transportation Fund (SB 325)	\$ 1,842,754	\$ 486,490
State Transit Assistance Fund (SB 620)	436,113	406,772
Federal grants		
FTA Section 5307 - capital grant	3,695,133	-
Miscellaneous grants	<u>-</u>	<u>159,264</u>
Net grants received	5,974,000	1,052,526
Less: Accumulated depreciation expense - current	(2,338,068)	(2,127,172)
Less: Grant equity on disposal of assets	(1,807,795)	(306,209)
Add: Accumulated depreciation on disposal of assets	<u>1,630,337</u>	<u>297,506</u>
Net change in capital grants	3,458,474	(1,083,349)
Balance, July 1	<u>25,978,280</u>	<u>27,061,629</u>
Balance, June 30	<u>\$ 29,436,754</u>	<u>\$ 25,978,280</u>

An analysis of the capital funding is as follows:

State and local grants		
Local Transportation Fund (SB 325)	\$ 15,132,217	\$ 14,566,263
State Transit Assistance Fund (SB 620)	7,692,371	7,302,324
Federal grants		
FTA Section 5307	15,178,807	11,765,899
FTA Section 5309	7,968,572	8,042,738
FTA Section 5312	63,588	150,000
District capital	129,329	129,329
Miscellaneous grants	1,929,248	1,971,376
CalStart grant	<u>996,631</u>	<u>996,631</u>
Total Capital Funding	49,090,763	44,924,560
Less: Accumulated depreciation expense	<u>(19,654,009)</u>	<u>(18,946,280)</u>
Net Assets	<u>\$ 29,436,754</u>	<u>\$ 25,978,280</u>

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8 - TRANSPORTATION DEVELOPMENT ACT FUNDING AND ALLOCATIONS

Transportation development act funding and allocations for the year ended June 30:

	<u>2004</u>	<u>2003</u>
Funding		
Local Transportation Fund (SB 325)	\$ 6,062,910	\$ 5,932,888
State Transit Assistance Fund (SB 620)	<u>436,119</u>	<u>406,772</u>
	<u>6,499,029</u>	<u>6,339,660</u>
Usage		
Operations	5,434,952	4,734,175
Capital projects	<u>2,278,868</u>	<u>893,260</u>
	<u>7,713,820</u>	<u>5,627,435</u>
Net Affect on Deferred Credits	<u>\$ (1,214,791)</u>	<u>\$ 712,225</u>

Note 9 - FEDERAL GRANTS AND REIMBURSEMENTS

Federal grants and reimbursements for the year ended June 30:

	<u>2004</u>	<u>2003</u>
FTA		
Operating grants	\$ 2,756,159	\$ 2,756,468
Capital grants	3,695,133	-
Capital funding taken in excess of grant (included in deferred credits)	<u>307,698</u>	<u>-</u>
Total	<u>\$ 6,758,990</u>	<u>\$ 2,756,468</u>

Note 10 - RECEIVABLES

Grants receivable at June 30, 2004 and 2003, are summarized as follows:

	<u>2004</u>	<u>2003</u>
Federal Transit Administration - Section 5307	\$ 2,756,159	\$ 2,756,468
Local Transportation Fund (SB 325)	11,252	-
State Transit Assistance (SB 620)	<u>-</u>	<u>572,143</u>
	<u>\$ 2,767,411</u>	<u>\$ 3,328,611</u>
Other receivables are as follows:		
Trade receivables	<u>\$ 154,405</u>	<u>\$ 182,932</u>

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11 - SICK PAY

In accordance with Financial Accounting Standards Board (FASB) Statement No. 43, accrued sick pay is summarized as follows:

	<u>2004</u>	<u>2003</u>
Total accrued sick pay	\$ 1,108,789	\$ 1,114,137
Amount of sick pay vested, in accordance with the union agreement, and recorded on the financial statements	<u>336,964</u> <u>\$ 771,825</u>	<u>210,877</u> <u>\$ 903,260</u>

Note 12 - RETIREES' HEALTH CARE BENEFITS

The Bargaining Unit Contract determines benefits for District retirees who were members of the union. The District provides health care benefits for union retirees if they are at least 62 years old and have at least 25 years of continuous service. For those employees who retired prior to January 1, 1988 the maximum District contribution is \$160 per month. For those who retired after January 1, 1988, the current maximum contribution is \$135 per month, with provisions for increase on July 31, 2004.

Full-time salaried staff (non-union) employees are entitled to a medical plan premium paid by the District for themselves and their spouses until retiree's death if they are at least 60 years of age and were employed by the District for 25 full-time years.

Benefits for both union and non-union retirees are provided by the same supplemental group plan, Secure Horizons (SH).

Monthly premiums paid by the District for the fiscal year ended June 30, 2004 are as follows:

Medicare one-party (SH)	\$225
Medicare two-party (SH)	450
Active one-party (non-Medicare)	308
Dental - couple	81
Dental - single	36

There were 12 retiree participants in 2004 and ten in 2003, and the total cost of benefits paid by the District amounted to \$30,254 in 2004 and \$24,416 in 2003.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13 - RETIREMENT PLANS

Two employee groups are covered:

<u>Employee Group</u>	<u>Plan names</u>	<u>2004 Cost</u>	<u>2003 Cost</u>
1. Union	Teamsters	\$ 712,143	\$ 652,770
2. Non-Union	Profit-Sharing and Salary Deferral Plan and Trust, and Money Purchase Pension Plan and Trust	<u>180,337</u>	<u>161,821</u>
		<u>\$ 892,480</u>	<u>\$ 814,591</u>

Since the District is not involved with the operations or administration of the Teamsters Pension Plan, information relating to any funding liability is not available.

Note 14 - PROFIT-SHARING AND SALARY DEFERRAL PLAN AND TRUST, AND MONEY PURCHASE PENSION PLAN AND TRUST

Effective July 1, 1985, the District established the above-named retirement plans for employees not covered by the union plan. The plans are administered by the District, which contracts the administration to JRN Benefits.

The District contributes to the Profit-Sharing and Salary Deferral Plan an amount equal to 3% of the compensation of the eligible participants. Vesting is immediate for both contributions. The District contributes to the Money Purchase Pension Plan an amount equal to a maximum of 7% of the compensation of the eligible participants. Vesting is over a four-year period, with 25% vesting in the first year, 50% in the second year, 75% in the third year, and 100% in the fourth year. The District is not obligated in any year to make contributions to the Plans; however, contributions by the District must be regular and continuing if the plan is to continue to receive favorable tax benefits under the Internal Revenue Code Section 401(k).

The District's total payroll in fiscal year 2004 was \$7,268,679 and the District's contributions were based upon a payroll of \$1,803,371. The District made contributions amounting to \$180,337 (10% of covered payroll) and the covered employees made contributions amounting to \$183,255 (10.2% of covered payroll).

The District's total payroll in fiscal year 2003 was \$6,790,586 and the District's contributions were based upon a payroll of \$1,618,198. The District made contributions amounting to \$161,821 (10% of covered payroll) and the covered employees made contributions amounting to \$182,938 (11.3% of covered payroll).

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 15 - RISK MANAGEMENT

The District is exposed to various risks of losses related to injuries to employees and the public, damage to and destruction of assets, and errors and omissions.

From April 1, 1995 to March 31, 2001 the District had a Self-Insured Retention policy with liability coverage in excess of \$250,000 with a \$10 million limit on any one claim. From April 1, 2001 to March 31, 2002, the District had a Self-Insured Retention policy with liability coverage in excess of \$100,000 with a \$10 million limit on any one claim. From April 1, 2002 to March 31, 2005, the District has a Self-Insured Retention policy with liability coverage in excess of \$250,000 with a \$10 million limit on any one claim.

The District has elected to self-insure its obligations for workers' compensation claims. The District had purchased insurance from outside carriers for individual claims in excess of \$500,000 for 2003, with a \$5 million limit on any one claim. As of January 1, 2004, the District increased the amount of that is self insured to \$1.5 million, with a \$10 million limit on any one claim.

There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the four years prior.

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District's insurance adjusters and attorneys help to determine the amount of actual or potential claims against the District. An analysis of claims activities for general liability and workers' compensation liability is presented below:

	<u>2004</u>	<u>2003</u>
Claims liability - beginning of year	\$ 1,202,926	\$ 1,155,371
Claims and changes in estimates	872,188	766,950
Actual claim payments	<u>(818,887)</u>	<u>(719,395)</u>
Claims liability - end of year	<u>\$ 1,256,277</u>	<u>\$ 1,202,926</u>

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 16 - COMMITMENTS

Paratransit Service

The District is required under Federal law, the Americans with Disabilities Act of 1990 (ADA), to ensure that complementary paratransit service is available wherever and whenever MTD provides fixed-route bus service. The District complies with this requirement by partially subsidizing the paratransit service provided by Easy Lift Transportation. The District signed a written contract with Easy Lift in March 2003 for these services. Either party can terminate this agreement within 120 days of year end.

Easy Lift's operating budget totals approximately \$1.5 million annually. For fiscal year 2005, the District has agreed to provide Easy Lift a subsidy of \$347,503 for the paratransit services. The amount is to be adjusted by mutual consent if the District requests an adjustment in the amount of paratransit service to be provided, and the contract can be extended for each year up to and including June 30, 2007. If for any reason, Easy Lift were to fail to provide the required ADA paratransit service, the District would continue to be responsible for the service under Federal law. The District would be required to implement a replacement service on very short notice, at a cost that would likely exceed the current subsidy.

Bus Tire Lease

The District has a contract with The Goodyear Tire & Rubber Company to furnish the District with a sufficient quantity of tires to keep all vehicles fully equipped and to provide a reserve supply, at a maximum level determined by Goodyear, as spare stock inventory to be mounted on rims and kept in the District's garage for use in case of emergency. The District provides The Goodyear Tire & Rubber Company with mileage for each vehicle in its fleet on a monthly basis and is billed in accordance with its agreement. Both parties have the option to terminate this agreement each year with 30-days notice. The rate per tire increases by an agreed upon percentage once a year. For fiscal year 2004, the rate paid by MTD is as follows:

(Rate per vehicle multiplied by miles traveled)

Group A = \$0.030816

Groups B and C = \$0.040188

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 17 - CONTINGENCIES

Calle Real Property

The District is in negotiations with Santa Barbara Housing Authority and its partners for a joint venture transit-oriented housing development on approximately nineteen acres of land owned by the District on Calle Real Road in Santa Barbara, California.

Federal Grant Contracts

The terms of the federal grant contracts require the District to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Transportation Equity Act for the 21st Century. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Department of Transportation. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Overpass Road

Fuel storage tank leakage will require environmental cleanup estimated at \$100,000. The facility is now used primarily for storage by the District.

Acquisition of Buses

In fiscal year 2004, the District acquired five over-the-road coaches from Motor Coach Industries (MCI). The District utilized piggyback options available from Central New York Transit Authority to acquire the vehicles prior to December 31, 2003. The District had to enter into the agreement prior to that date to ensure that it met California Air Resources Board (CARB) deadline for the certified engines included in those buses. As a result, the manufacturer was able to deliver the buses within six months but the District did not officially accept the buses until July of 2004. This coincided with the typical time needed to evaluate the buses for acceptance. Additionally, the District's contract with MCI stated that the District could wait until July 30, 2004 to make the payment of \$ 2,157,956. MCI was paid in full in July, 2004.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 18 - CAPITAL LEASE

The District signed a capital lease agreement in February 2004 for eleven buses with a cost of \$2,574,983. The lease requires a quarterly payment of \$142,958 beginning May 27, 2004, has an imputed interest rate of 3.69%, and matures on May 27, 2009. Accumulated depreciation and current depreciation are both \$107,291 as of June 30, 2004.

Future commitments under these non-cancelable capital leases are as follows:

For the year ending June 30:

2005	\$ 571,832
2006	571,832
2007	571,832
2008	571,832
2009	<u>428,875</u>
Total Payments	2,716,203
Interest	<u>259,191</u>
Net Payments	<u>\$ 2,457,012</u>

Note 19 SUPPLEMENTAL CASH FLOW INFORMATION

Non Cash Transactions - As stated in Note 18, the District acquired eleven buses during 2004 by financing them with a \$2,574,983 capital lease.